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Westly, Harrigan Urge CalPERS Action on Global Warming

Controller and Pension Board Member Want Pressure on Automakers to Innovate, not Litigate

SACRAMENTO – State Controller Steve Westly and CalPERS Board Member Sean Harrigan today called on the pension fund to pressure automakers to comply with new California emission standards designed to curb global warming.

In a letter to fellow CalPERS board members, Westly and Harrigan said they were concerned that automobile makers were threatening lawsuits rather than developing cars to meet the growing demand for clean technology.

"We want automakers to tackle the challenge of global warming head-on," Westly said. "We're concerned that car companies would rather litigate than innovate to meet California's new emission standards. Carmakers should put new technology in high gear – not take shareholders on a long and pointless legal detour."

"I'm deeply concerned that the industry's plans to fight new auto emission standards in our state could harm the long-term financial interests of shareowners," Harrigan said. "Auto companies and their shareowners are better served if shareowner dollars are used to comply with these standards rather than fight them. It is in the best interests of the auto industry's long-term viability, their competitiveness, and the interests of their shareowners."

Air Resources Board regulations require new cars to meet the standards starting in 2009. The rules provide for a 30 percent reduction in greenhouse gases by 2016. Assemblymember Fran Pavley (D-Agoura Hills) wrote legislation making California the first state in the country to regulate greenhouse gas emissions.

"Auto companies investing in new technologies and design rather than lawyers and litigation is in the long-term best interests of the economy, as well as the environment," Pavley said. "Manufacturing cars with new technologies will create new opportunities for economic growth and jobs."

States that have adopted or are in the processing of adopting California's emission regulations, include New York, New Jersey, Connecticut, Massachusetts, Maine, Vermont and Rhode Island. Combined with California, these states make up approximately 25 percent of new U.S. vehicle sales. These states, along with Canada, are also considering adopting the new greenhouse-gas standards.

"Car companies cannot be competitive in the international auto market without addressing global warming emissions," said Jason Mark, the Union of Concerned Scientists' Clean Vehicles Director. "Automakers should use their engineers, not their lawyers, to meet California's clean car rules."

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Experts also believe that the Kyoto Protocol will increase demand for cars using clean technology. Countries ratifying the protocol account for more than 60 percent of worldwide vehicle sales.

The Union of Concerned Scientists found that applying available technology to all new vehicles sold in California would reduce emissions an average of 40 percent. Car buyers would recover the added costs of these improvements in less than 4.5 years.

In their letter, Westly and Harrigan called for CalPERS to put pressure on these companies to act responsibly, and to ask companies to explain their preparedness for the new regulations.

“We hope that the auto manufacturers are preparing for the future by investing in clean technologies, rather than fighting the inevitable,” they wrote. “If not, CalPERS should prepare to aggressively engage companies on this issue, including enlisting other investors in our efforts and pursuing proxy battles.”

Text of the letter to CalPERS board members follows.

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STEVE WESTLY
California State Controller

November 22, 2004

Mr. Rob Feckner
Chair, Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Dear Mr. Feckner:

We are concerned about the auto industry's plans to block the new auto emissions standards in California, set to become effective in 2006. As the world's largest public pension fund, CalPERS should ask the auto manufacturers how they plan to comply with new California and international requirements to address global warming.

California has led the development of new auto emission rules that other states and Canada may soon adopt. Russia's approval of the Kyoto Protocol last month puts this international agreement into effect and paves the way for global efforts to reduce greenhouse gas emissions. Given the changing regulatory environment, we are deeply concerned that the auto industry is not prepared for the competitive global market of the next five to ten years.

Instead, the Alliance of Automobile Manufacturers – including BMW, DaimlerChrysler, Ford, GM, Mazda, Mitsubishi, Porsche, Toyota and Volkswagen – appears poised to divert money and resources to litigation to dismantle the new California rules. We believe shareholders would be better served if these companies instead invested in the cutting edge technologies integral to their future competitiveness.

CalPERS' investments in these companies are valued at $838.2 million (as of October 31, 2004). We urge CalPERS to put pressure on these companies to act responsibly. This could include asking companies to explain their preparedness for the new regulations and their financial rationale for considering litigation instead.

We hope that the auto manufacturers are preparing for the future by investing in clean technologies, rather than fighting the inevitable. If not, CalPERS should prepare to aggressively engage companies on this issue, including enlisting other investors in our efforts and pursuing proxy battles.

We ask that the Investment Committee place this item on its December 13 agenda for further Board discussion. Worldwide efforts to address global warming are inevitable, and it is important that this Board understand its effects on our investments.

Sincerely,

STEVE WESTLY
California State Controller
Member, CalPERS Board of Administration

SEAN HARRIGAN
Member, CalPERS Board of Administration

cc: Members, CalPERS Investment Committee
Fred Buenrostro, CEO
Mark Anson, CIO
Christy Wood, Sr. Investment Officer
Winston Hickox, Portfolio Manager